

24 September 2008

Mr Chris Pattas
General Manager
Network Regulation South Branch
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

By email: AERinquiry@aer.gov.au

Dear Chris,

AER Weighted Average Cost of Capital (WACC) Issues Paper

Grid Australia is pleased to have the opportunity to make this submission in response to the AER Issues Paper. Grid Australia represents the owners of Australia's \$12 billion electricity transmission networks in the National Electricity Market (NEM), plus Western Australia. Its members are ElectraNet Pty Ltd (South Australia), Powerlink Queensland (Queensland), SP AusNet (Victoria), Transend Networks Pty Ltd (Tasmania), TransGrid (New South Wales) and Western Power (Western Australia).

Collectively, Grid Australia members own and operate over 47,000 km of high voltage transmission lines, have assets of more than \$12 billion and invest approximately \$2.2 billion in the networks each year.

Issues Paper – a focus on a technical approach

The AER's Issues Paper focuses on technical matters and the statistical estimation of the individual WACC parameter values. In this regard, Grid Australia has contributed to the development of the joint industry association submission with the Energy Networks Association and Australian Pipeline Industry Association.

Grid Australia strongly supports the findings contained in the joint industry associations' submission. In particular, the analysis and expert advice demonstrates that there is no persuasive evidence which would justify a move from the currently adopted values codified in the Rules for electricity transmission, with the exception of the gamma. Specifically, there is persuasive evidence that, for a market risk premium of 6 per cent, the gamma should be reduced from a value of 0.5 to 0. Alternatively, there is persuasive evidence to justify the adoption of a gamma value of 0.2, which would require the MRP to be increased to 7 per cent.

The “big picture” Perspective

Grid Australia does not believe that the AER should solely, or even heavily, focus on technical analysis. The AER’s WACC Review is clearly of critical importance to establishing an appropriate forward looking rate of return to encourage ongoing timely and efficient investment in the electricity transmission networks. As such, Grid Australia considers that it is imperative the AER also take a “big picture” perspective in reaching its conclusions on these matters. The reasons for this view relate, in particular, to the current and future potential impact of:

- the turmoil in international financial markets, which has placed increasing pressure on both debt and equity markets. Given that the market is in the process of repricing risk, anecdotal evidence suggests that investors now expect higher returns on their investments. In that regard, it would be beneficial if the AER captured input from financial investors; and
- the need for electricity transmission businesses to respond to the Federal Government’s climate change policies, such as the Carbon Pollution Reduction Scheme and Renewable Energy Target. These policies will require electricity transmission businesses to extend their networks to (often remote) areas where renewable generation can be sourced, and to provide increased interconnector capacity. Significantly more investment in the transmission grid will be required as Australia transitions to a lower emissions future. The AER’s WACC decision will either facilitate or hinder the desired policy outcomes.

Grid Australia would be pleased to discuss any aspect of this submission with the AER. If you have any queries, please do not hesitate to contact me directly or Rainer Korte on (08) 8404 7983.

Yours sincerely,



Gordon Jardine
Chairman
Grid Australia